Financial Plan

The four-year financial plan is a critical tool for ensuring the long-term fiscal health of the District. The District has made great strides in financial management in recent years. FY 2000 marked the fourth consecutive year in which the District achieved a balanced budget. This was one of the final requirements needed to return to home rule. FY 2001 marks the end of the control period.

Going forward, however, the District must continue to demonstrate financial stability for several reasons:

- *Bond ratings.* Structural balance and a 5 percent positive fund balance greatly enhanced the District's financial position and assisted in the District earning investment grade bond ratings. Maintaining a sound financial strategy will result in further upgrades in the bond market.
- *Capital investment.* The District must develop adequate financial reserves and borrowing capacity to support the financing of badly needed investment in capital infrastructure.
- *Tax relief.* Careful control of expenditures will allow the District to continue its implementation of tax relief.

The FY 2002 Proposed Budget and Financial Plan effectively balances the tradeoffs inherent in serving these interests. In this chapter, the following items will be presented:

- Financial plan overview
- Assessment of fiscal condition
- Summary of revenue projections
- Summary of expenditure projections
- The bottom line

These issues will be discussed in turn, beginning with the overview.

Overview

The financial plan reflects the general fund resources necessary to fulfill the District's policy agenda. The purpose of this section is to present the financial plan and describe each item within, and highlight key budget issues. Of special note, the FY 2002 Proposed Budget and Financial Plan includes the following major items:

- *Tax Reduction.* The revenue projections in the financial plan reflect the third year impact of a major tax reduction that began in FY 2000.

The reduction includes taxes on individual income, personal property, franchises, and other areas in an effort to stimulate economic development and bring the District's tax structure in line with those of neighboring jurisdictions.

- *$150 Million Reserve.* Since FY 2000, the Congress has required that the District annually budget a $150 million operating reserve. The financial plan reflects compliance with this requirement. The statutory requirement sunsets at the conclusion of FY 2004, September 30, 2004.
- *Emergency Reserve Fund (4 Percent).* In FY 2001, Congress also required the District to establish an Emergency Reserve Fund equal to 4 percent of projected local expenditures each fiscal year. The financial plan reflects compliance with this requirement.
- *Contingency Reserve Fund (3 Percent).* Congress requires that, by FY 2007, the District must fully fund the 4 percent Emergency Reserve and a 3 percent Contingency Reserve, for a total 7 percent cash reserve. Although the establishment of the Contingency Reserve is not mandated for FY 2002, an amount will be transferred into this fund ahead of schedule. The financial plan shows the District fulfilling the requirement 4 years ahead of schedule in FY 2003.
- *Savings.* The financial plan includes $10 million in Management Reform Productivity Savings for FY 2002. These savings have been allocated to specific programs. There are no unallocated savings included in the financial plan for FY 2002.

This discussion will now specifically review the financial plan, presented on the following page.

It is important to note that this plan reflects gross expenditures (i.e., the total of local, federal, private, and other expenditures), although only local revenue and expenditures contribute to the annual surpluses/deficits and the fund balances. Each item in the plan is described below. The row numbers and headings presented below correspond to those in the financial plan showing gross funds (table 1).

1. *Taxes.* Includes property, sales, income, and other taxes, which are projected by the Office of Tax and Revenue and certified by the District of Columbia Financial Responsibility and Management Assistance Authority (DCFRMAA). Beginning in FY 2000, revenues reflect a five-year tax reduction that was implemented in FY 2000. See the Revenues chapter for further details.

2. *Non-tax revenues.* Includes revenue from licenses and permits, parking and traffic fines, charges for services, interest income, and other revenue sources. See the Revenues chapter for further details.

3. *Federal Payment (Contribution).* Reflects the funding contributed by the federal government for specific projects. Payments provided by the federal government for specific projects or initiatives are accounted for as local funds.

4. *Lottery.* Reflects revenues from the District's lottery.

5. *Subtotal, Local Funds.* Provides a summation of the revenues from local sources.

6. *Grants.* Federal grant awards anticipated by District agencies. This amount reflects 100 percent of the proposed federal grant expenditures.

7. *Private/Other revenues.* Includes revenues from service charges and user fees that are collected and spent by the collecting agency. This pool is distinct from the Non-Tax Revenue category above, which is utilized in the general pool of discretionary local revenue.

8. *Subtotal, Non-Local Funds.* Provides a summation of the non-local funding sources presented immediately above.

9. *Early Retirement of Debt.* Represents those funds restricted in the FY 2000 Reserved/Restricted Fund Balance for the early retirement of debt. The disbursement will occur in FY 2001.

10. *FY 2000 Carryover.* Congress permitted the District to spend the prior year's unspent Budgeted Reserve in the current fiscal year. The funds were part of the FY 2000 Reserved/Restricted Fund Balance.

11. *Subtotal, Funds from FY 2000 Fund Balance.* Provides a summation of the Funds from the FY 2000 Fund Balance.

12. *Total Revenues.* Provides a summation of the revenue subtotals above.

Table 1

FY 2002–FY 2005 Proposed Budget and Financial Plan, Gross Funds

(dollars in thousands)

Revenues	FY 2000 Actual	FY 2001 Approved	FY 2001 As Adjusted	FY 2002 Proposed	FY 2003 Projected	FY 2004 Projected	FY 2005 Projected
1 Taxes	3,083,827	2,918,428	3,148,407	3,243,555	3,375,217	3,507,181	3,652,067
2 Non-Tax Revenues	255,123	237,372	211,149	225,334	219,907	225,624	231,490
3 Federal Payment	23,576	30,111	30,045	17,000	0	0	0
4 Lottery	69,450	69,000	69,000	70,000	70,000	70,000	70,000
5 Subtotal, Local Funds	**3,431,976**	**3,254,911**	**3,458,601**	**3,555,889**	**3,665,124**	**3,802,805**	**3,953,557**
6 Grants	1,256,673	1,305,867	1,396,483	1,543,041	1,624,182	1,711,500	1,804,623
7 Private/Other Revenues	310,352	294,066	294,689	193,881	199,525	205,344	211,342
8 Subtotal, Non-Local Funds	**1,567,025**	**1,599,933**	**1,691,172**	**1,736,922**	**1,823,707**	**1,916,844**	**2,015,965**
9 Early Retirement of Debt (P.L. 106-113)	0	0	122,480	0	0	0	0
10 FY 2000 Carryover (Approved by P.L. 106-522)	0	0	123,440	0	0	0	0
11 Subtotal, Funds from FY 2000 Fund Balance	**0**	**0**	**245,920**	**0**	**0**	**0**	**0**
12 Total Revenues	**4,999,001**	**4,854,844**	**5,395,693**	**5,292,811**	**5,488,831**	**5,719,649**	**5,969,522**
Expenditures (by Appropriation Title)							
13 Governmental Direction and Support	217,300	195,771	201,151	284,559	291,557	300,236	309,176
14 Economic Development and Regulation	174,267	205,638	207,096	230,878	235,199	241,940	248,877
15 Public Safety and Justice	826,063	762,546	776,754	632,668	652,426	672,813	693,847
16 Public Education System	901,096	998,918	1,029,171	1,106,165	1,117,946	1,147,878	1,178,618
17 Human Support Services	1,590,917	1,535,654	1,734,475	1,803,923	1,905,353	2,017,096	2,164,403
18 Public Works	271,035	278,242	276,227	300,151	309,773	320,205	331,011
19 Receiverships	358,753	389,528	409,916	403,368	406,786	418,540	430,640
20 Financing and Other	364,930	308,673	338,943	345,256	381,547	410,153	441,748
21 Financial Authority	3,140	3,140	3,140	0	0	0	0
22 Budgeted Reserve	0	150,000	46,000	150,000	150,000	150,000	0
23 Management Reform Productivity Savings	0	(37,000)	0	0	0	0	0
24 Operational Improvement Savings	0	(10,000)	0	0	0	0	0
25 Cafeteria Plan Savings	0	(5,000)	0	0	0	0	0
26 Management Supervisory Service (MSS)	0	13,200	5,203	0	0	0	0
27 Subtotal, General Fund Expenditures	**4,707,501**	**4,789,310**	**5,028,076**	**5,256,968**	**5,450,587**	**5,678,861**	**5,798,320**
28 Emergency & Contingency Reserve Fund Transfers							
28a Debt Service Savings (Tobacco)	0	61,406	69,382	33,254	49,493	0	0
28b One Percent Cash Transfer	0	0	33,000	35,533	36,777	0	0
29 Tobacco Securitization Savings (Program Funds)	0	0	0	0	687	27,680	30,984
30 Tobacco Securitization Savings (Investment Funds)	0	0	0	0	687	27,680	30,984
31 Early Retirement of Debt (P.L. 106-113)	0	0	122,480	0	0	0	0
32 Pay-Go Capital (Transfer to Capital)	0	0	48,019	0	0	0	0
33 Total Expenditures	**4,707,501**	**4,850,716**	**5,300,957**	**5,325,755**	**5,538,231**	**5,734,221**	**5,860,288**
34 Projected GAAP Adjustments (Net)	(50,773)	0	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
35 Unspent Reserve (Budgeted)	0	150,000	46,000	100,000	100,000	100,000	0
36 Emergency & Contingency Reserve Transfers (Debt)	0	61,406	69,382	33,254	49,493	0	0
37 Emergency & Contingency Reserve Transfers (1%)	0	0	33,000	35,533	36,777	0	0
38 Tobacco Securitization Savings (Investment Funds)	0	0	0	0	687	27,680	30,984
39 Operating Margin-GAAP Basis	**240,727**	**215,534**	**193,118**	**85,843**	**87,557**	**63,108**	**90,218**
40 Beginning Fund Balance	**224,210**	**464,937**	**464,937**	**412,135**	**497,978**	**585,535**	**648,643**
41 Early Retirement of Debt (P.L. 106-113)	0	0	(122,480)	0	0	0	0
42 FY 2000 Carryover (Approved by P.L. 106-522)	0	0	(123,440)	0	0	0	0
43 Ending Fund Balance	**464,937**	**680,471**	**412,135**	**497,978**	**585,535**	**648,643**	**738,861**
	FY 2000 Actual	**FY 2001 Approved**	**FY 2001 As Adjusted**	**FY 2002 Proposed**	**FY 2003 Projected**	**FY 2004 Projected**	**FY 2005 Projected**
44 Emergency & Contingency Cash Reserve Target (7%)	n/a	227,555	238,440	248,731	257,442	267,216	269,103
45 Emergency & Contingency Cash Reserve Balance	n/a	61,406	102,382	171,172	257,442	267,216	269,103
46 Tobacco Securitization Savings (Investment Funds)	0	0	0	0	687	28,367	59,351
47 Cash Reserve Balance plus Tobacco Savings	**0**	**61,406**	**102,382**	**171,172**	**258,129**	**295,583**	**328,454**

13-19. *Agency Expenditures.* These items reflect agency expenditures by appropriation title. The growth of expenditures in the out-years is based on certain growth assumptions that are discussed later in this chapter.

20. *Financing and Other.* Includes Repayment of Loans and Interest, Repayment of General Fund Deficit, Short-Term Borrowings, and Certificate of Participation. In addition, this line includes Workforce Investments, and the Wilson Building payment.

21. *Financial Authority.* Reflects the appropriation for the District of Columbia Financial Responsibility and Management Assistance Authority. After the end of the control period, the Authority's remaining operations will be funded by Congressional Appropriation.

22. *Budgeted Reserve.* Reflects the $150 million reserve mandated by Congress. The requirement sunsets at the conclusion of FY 2004.

23. *Management Reform Productivity Savings.* Reflects unallocated management savings targets.

24. *Operational Improvement Savings.* Reflects the savings projected to result from the use of a variety of tools that can be used to achieve service improvements, efficiencies and cost savings.

25. *Cafeteria Plan Savings.* Reflects savings that will result from implementing a cafeteria benefits plan for employees of the government in FY 2001.

26. *Management Supervisory Service (MSS).* Reflects funding for a pay increase to certain managers/supervisors in FY 2001 that were transferred to this new classification.

27. *Subtotal, General Fund Expenditures.* This item provides a summation of all expenditures and savings presented above.

28. *Emergency & Contingency Reserve Fund Transfers*. Reflects the transfer of revenue to restricted accounts within the General Fund. These amounts are not expended.

28a. *Debt Service Savings (Tobacco)*. The transfer of an amount in revenue equal to the debt service savings from the tobacco securitization.

28b. *One Percent Cash Transfer*. One percent of appropriated expenditures excluding transfers to restricted accounts within the General Fund.

29-30. *Tobacco Securitization Savings (Program Funds & Investment Funds)*. Represents the excess of the savings from the tobacco securitization after fulfilling the 7 percent cash set-aside. One-half of the funds are to be used for programs. The remaining half is to be invested.

31. *Early Retirement of Debt*. Reflects approved cash disbursement from the FY 2000 Restricted Fund Balance for the early retirement of debt.

32. *Pay-Go Capital (Transfer to Capital)*. Operating revenue used as funding for Pay- As-You-Go capital projects.

33. *Total Expenditures*. This item provides a summation of expenditures and cash disbursements presented above.

34. *Projected GAAP Adjustments (Net)*. Generally Accepted Accounting Principles (GAAP) requires certain adjustments to the budgetary basis. This net projection for the GAAP adjustments.

35. *Unspent Reserve (Budgeted)*. Reflects the projected amount of the $150 million budgeted reserve that will not be expended during the fiscal year.

36-37. *Emergency & Contingency Reserve Transfers*. Transfers to restricted accounts within the General Fund that do not affect expenditures.

38. *Tobacco Securitization Savings*. Once the emergency and contingency fund requirements are met in FY 2003, a portion of the savings from the tobacco securitization is to be invested, thus, not disbursed. This reflects a transfer of funds, not a disbursement.

39. *Operating Margin-GAAP Basis*. Shows the difference between revenue and expenditures, reflects the impact of unspent budget reserve and the adjustments for cash transfers.

40. *Beginning Fund Balance*. Shows the accumulated fund balance for the General Fund at the beginning of the fiscal year, which is identical to the end-of-year fund balance for the previous fiscal year.

41-42. *Adjustments to Beginning Fund Balance*. Subsequent to the prior fiscal year's close, Congress, through P.L. 106-113 and P.L. 106-522, granted permission to access the Restricted/Reserved Fund balance for the early retirement of debt and for the unspent budgeted reserve.

43. *Ending Fund Balance*. Shows a summation of the beginning-of-year fund balance and the annual surplus.

Table 2

FY 2002–FY 2005 Proposed Budget and Financial Plan, Local Funds

(dollars in thousands)

Revenues	FY 2000 Actual	FY 2001 Approved	FY 2001 As Adjusted	FY 2002 Proposed	FY 2003 Projected	FY 2004 Projected	FY 2005 Projected
1 Taxes	3,083,827	2,918,428	3,148,407	3,243,555	3,375,217	3,507,181	3,652,067
2 Non-Tax Revenues	255,123	237,372	211,149	225,334	219,907	225,624	231,490
3 Federal Payment	23,576	30,111	30,045	17,000	0	0	0
4 Lottery	69,450	69,000	69,000	70,000	70,000	70,000	70,000
5 Subtotal, Local Funds	**3,431,976**	**3,254,911**	**3,458,601**	**3,555,889**	**3,665,124**	**3,802,805**	**3,953,557**
6 Early Retirement of Debt (P.L. 106-113)	0	0	122,480	0	0	0	0
7 FY 2000 Carryover (Approved by P.L. 106-522)	0	0	123,440	0	0	0	0
8 Subtotal, Funds from FY 2000 Fund Balance	**0**	**0**	**245,920**	**0**	**0**	**0**	**0**
9 Total Local Fund Revenues	**3,431,976**	**3,254,911**	**3,704,521**	**3,555,889**	**3,665,124**	**3,802,805**	**3,953,557**
Expenditures (by Appropriation Title)							
10 Governmental Direction and Support	161,109	162,172	165,561	228,471	233,930	241,027	248,343
11 Economic Development and Regulation	49,338	53,562	54,614	60,786	60,296	62,091	63,940
12 Public Safety and Justice	618,970	591,565	605,106	593,618	612,228	631,431	651,247
13 Public Education System	728,125	824,867	839,473	894,494	900,303	924,092	948,514
14 Human Support Services	732,999	637,347	764,676	711,072	743,912	781,234	848,670
15 Public Works	257,932	265,078	262,424	286,334	295,556	305,576	315,958
16 Receiverships	217,313	234,913	254,904	250,015	249,108	256,413	263,935
17 Financing and Other	364,930	308,673	338,943	345,256	381,547	410,153	441,748
18 Financial Authority	3,140	0	0	0	0	0	0
19 Budgeted Reserve	0	150,000	46,000	150,000	150,000	150,000	0
20 Management Reform Productivity Savings	0	(37,000)	0	0	0	0	0
21 Operational Improvement Savings	0	(10,000)	0	0	0	0	0
22 Cafeteria Plan Savings	0	(5,000)	0	0	0	0	0
23 Management Supervisory Service (MSS)	0	13,200	5,203	0	0	0	0
24 Subtotal, Local Fund Expenditures	**3,133,856**	**3,189,377**	**3,336,904**	**3,520,046**	**3,626,880**	**3,762,017**	**3,782,355**
25 Emergency & Contingency Reserve Fund Transfers							
25a Debt Service Savings (Tobacco)	0	61,406	69,382	33,254	49,493	0	0
25b One Percent Cash Transfer	0	0	33,000	35,533	36,777	0	0
26 Tobacco Securitization Savings (Program Funds)	0	0	0	0	687	27,680	30,984
27 Tobacco Securitization Savings (Investment Funds)	0	0	0	0	687	27,680	30,984
28 Early Retirement of Debt (P.L. 106-113)	0	0	122,480	0	0	0	0
29 Pay-Go Capital (Transfer to Capital)	0	0	48,019	0	0	0	0
30 Total Local Fund Expenditures	**3,133,856**	**3,250,783**	**3,609,785**	**3,588,833**	**3,714,524**	**3,817,377**	**3,844,323**
31 Projected GAAP Adjustments (Net)	(57,393)	0	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
32 Unspent Reserve (Budgeted)	0	150,000	46,000	100,000	100,000	100,000	0
33 Emergency & Contingency Reserve Transfers (Debt)	0	61,406	69,382	33,254	49,493	0	0
34 Emergency & Contingency Reserve Transfers (1%)	0	0	33,000	35,533	36,777	0	0
35 Tobacco Securitization Savings (Investment Funds)	0	0	0	0	687	27,680	30,984
36 Operating Margin - GAAP Basis	**240,727**	**215,534**	**193,118**	**85,843**	**87,557**	**63,108**	**90,218**
37 Beginning fund balance	**224,210**	**464,937**	**464,937**	**412,135**	**497,978**	**585,535**	**648,643**
38 Early Retirement of Debt (P.L. 106-113)	0	0	(122,480)	0	0	0	
39 FY 2000 Carryover (Approved by P.L. 106-522)	0	0	(123,440)	0	0	0	0
40 Ending fund balance	**464,937**	**680,471**	**412,135**	**497,978**	**585,535**	**648,643**	**738,861**

	FY 2000 Actual	FY 2001 Approved	FY 2001 As Adjusted	FY 2002 Proposed	FY 2003 Projected	FY 2004 Projected	FY 2005 Projected
41 Emergency & Contingency Cash Reserve Target (7%)	n/a	227,555	238,440	248,731	257,442	267,216	269,103
42 Emergency & Contingency Cash Reserve Balance	n/a	61,406	102,382	171,172	257,442	267,216	269,103
43 Tobacco Securitization Savings (Investment Funds)	0	0	0	0	687	28,367	59,351
44 Cash Reserve Balance plus Tobacco Savings	**0**	**61,406**	**102,382**	**171,172**	**258,129**	**295,583**	**328,454**

44. *Emergency and Contingency Cash Reserve Target (7%)*. The District is required to establish a 4-percent Emergency Reserve Fund and a 3-percent Contingency Reserve Fund, totaling 7 percent of proposed local expenditures. This line item reflects the 7-percent target.

45. *Emergency & Contingency Cash Reserve Balance*. Cumulative amount of the deposits for the required deposits in the emergency and contingency account.

46. *Tobacco Securitization Savings (Investment Funds)*. Savings from the tobacco securitization that are to be invested.

47. *Cash Reserve Balance Plus Tobacco Savings*. This amount reflects the cumulative balance of the two reserve funds and the tobacco account.

Table 2 presents similar information for local funds only.

Having established an overview and description of the local and gross versions of the financial plan, the next section provides an assessment of this plan's impact on the financial health of the District.

Assessment of Fiscal Condition

In order to be fiscally responsible, a financial plan must depict realistic expenditures that do not exceed revenues in the current year and a positive fund balance.

The *FY 2002 Proposed Budget and Financial Plan* meets these criteria. This plan includes a projected surplus of $85.8 million for FY 2002.

Gross revenues (i.e., local funds, federal grants and private funds) are growing at an average rate of 4.1 percent and gross expenditures at an average rate of 4.2 percent. A surplus is projected for each year. The chart below provides a magnified view of the growth of revenue and expenditures.

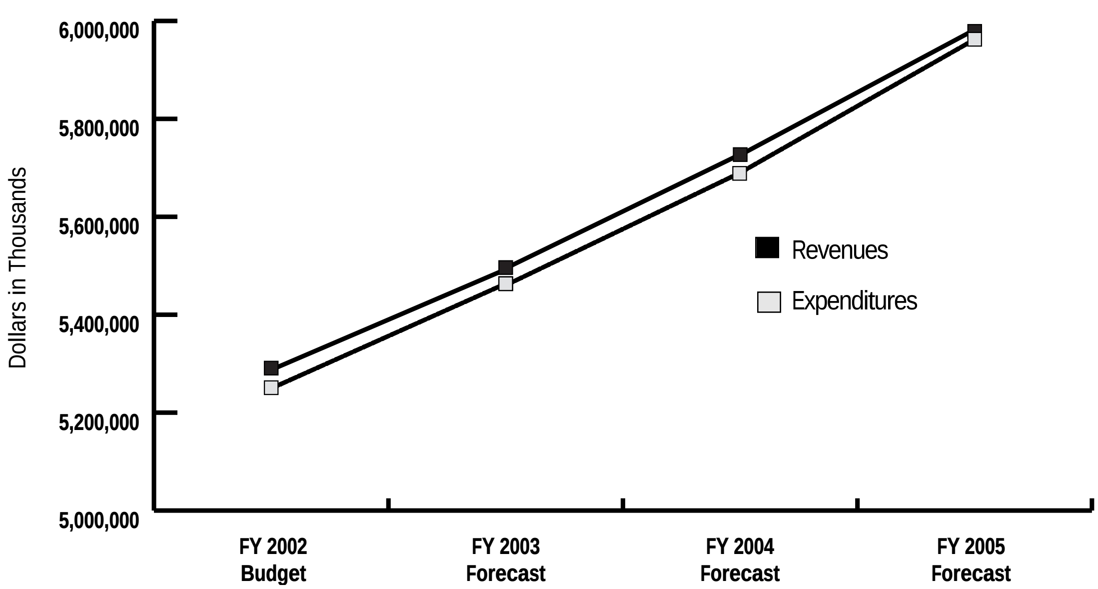
For both revenues and expenditures, these growth rates are composites of smaller items that grow at varying rates. Subsequent sections of this chapter provide greater detail on the specific components that produce these aggregate rates.

Finally, this financial plan shows a positive fund balance totaling $497.9 million, providing the District with protection against potential economic downturns or unanticipated expenditures.

In sum, the District is planning its expenditures within the constraints of its revenue, as it must. The following sections summarize the basis for the revenue and expenditure projections included in the financial plan.

Figure 1

Revenue and Expenditure Trends, FY 2002–FY 2005, Gross Funds



Summary of Revenue Projections

The District's economy had completed four straight years of modest, but solid, economic growth by the end of FY 2000. The city's attractiveness as a place to both live and work expanded during this period. For example, the latest Census information suggests that the city's population decline since 1990 is at least 10 percent less than estimated. The real estate market is booming and retail sales and employment are both up. In addition, various new initiatives put forth by local leadership are reshaping the city's image and generating new enthusiasm about the nation's capital. Fueled by the economy and improved tax administration, tax revenues have been growing, though most recently at a somewhat slower pace than economic activity. The result is four consecutive years with a budget surplus. The requirements of the 1995 Financial Responsibility and Management Assistance Act are satisfied and the stage is set for the end of the Control Period.

The outlook for FY 2001-2005 is for continued modest real economic growth coupled with a continued increase in revenue collections. The economic assets of the District will continue to grow and the fiscal health of the District will continue to improve.

That is the good news. However, there are reasons for caution concerning this outlook. The District is vulnerable to national economic changes such as rising interest rates that affect consumer spending for travel, automobiles, housing, and other "big ticket" items. Regionally, as the District economy becomes more competitive it also will face stronger challenges from neighboring rivals. And locally, continued recovery of D.C.'s public service delivery system is critical to sustaining economic growth.

Perhaps an even more important reason for caution is that the District's tax system does a poor job of harnessing its economic activity to generate increased revenues. District taxes often do not capture important areas of economic growth. A part of the problem is that the District can only tax about one third of the income produced within its boundaries. In addition, the tax structure has not kept pace with the changes in technology that are driving economic growth. Finally, some of the District's taxes are simply unstable revenue sources. The revenue estimates for the period FY 2002-2005 are based on the assumption that the District economy continues to grow at a modest rate. The District's tax system will capture some, but not all, of that growth. Employment is rising, as the federal government is stabilizing and employment in the service sector continues to grow. The real estate market is booming, led by a sizzling housing sector and big construction projects. Public services are improving and the city's public finances are back on track under the stewardship of Mayor Anthony Williams. These improving economic and political situations in the city are beginning to attract business and residents back.

Table 3 provides the economic assumptions underlying the revenue estimates.

Short Term (Fiscal Years 2001-2002)

Growth in the U.S. economy has begun to slow. Although few economists predict a recession, the economy in FY 2001 is expected to grow at a much more moderate pace as earnings decrease, the stock market sags, and lower consumer confidence depresses consumer spending and business investment. Inflation should not be a threat as the economy slows down and energy prices are stabilized. The outlook for FY 2002 seems to be brighter as many economists anticipate that the Federal Reserve's campaign to cut interest rates in 2001 will stop any real decline in economic activity. The U.S. economy is expected to grow at 2.2-2.6 percent and 3.2-3.6 percent in FY 2001-2002.

The outlook for the Washington metropolitan regional economy is more favorable. Although the regional economy is not immune from a slowdown in the national economy, the regional economy is forecasted to continue to grow above the national average, anchored by a strong demand base in the federal government and continuing growth in northern Virginia and suburban Maryland. Real gross regional product is expected to grow 3.5 percent and 3.7 percent in FY 2001 and 2002 - somewhat lower than last year, but still healthy robust growth.

The District's economy should be able to continue its moderate growth with modest gains in employment. There are several factors that make the District less vulnerable to a potential national downturn. First, the improving conditions in the

Table 3

The District Economy: Estimated Key Variables for the Forecast Period FY 1997–FY 2005

(adjusted for 2000 Census)

	FISCAL YEAR ESTIMATES								
	1997	1998	1999	2000	2001	2002	2003	2004	2005
Gross State Product ($ billion)	49.94	53.21	56.53	60.59	63.14	66.42	70.01	73.58	77.26
	3.1%	6.6%	6.2%	7.2%	4.2%	5.2%	5.4%	5.1%	5.0%
Real Gross State Product (billions of $96)	49.10	51.22	52.98	55.28	55.89	57.05	58.50	59.80	60.97
	0.7%	4.3%	3.4%	4.4%	1.1%	2.1%	2.5%	2.2%	2.0%
Personal Income ($ billion)	19.42	20.41	21.53	22.72	23.85	25.12	26.50	27.85	29.24
	3.8%	5.1%	5.5 %	5.5%	5.0%	5.3%	5.5%	5.1%	5.0%
Real Personal Income (billions of $96)	19.12	19.87	20.64	21.28	21.78	22.36	23.01	23.59	24.14
	1.6%	3.9%	3.9%	3.1%	2.4%	2.7%	2.9%	2.5%	2.4%
Per Capita Income ($)	33,742	35,633	37,646	39,682	41,579	43,692	45,999	48,244	50,551
	4.5%	5.6%	5.7%	5.4%	4.8%	5.1%	5.3%	4.9%	4.8%
Real Per Capita Income ($96)	33,222	34,677	36,085	37,167	37,964	38,894	39,945	40,871	41,777
	2.3%	4.4%	4.1%	3.0%	2.1%	2.4%	2.7%	2.3%	2.2%
Population (‘000)	575.7	572.9	572.0	572.5	573.7	574.9	576.1	577.3	578.5
	-0.6%	-0.5%	-0.2%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%
Households (‘000)	246.9	246.3	246.5	247.5	249.5	250.4	250.8	251.5	252.6
	0.2%	-0.2%	0.1%	0.4%	0.8%	0.4%	0.2%	0.3%	0.4%
Civilian Labor Force (‘000)	281.2	290.9	307.5	310.0	312.0	313.1	314.6	316.7	318.9
	-3.9%	3.4%	5.7%	0.8%	0.7%	0.4%	0.5%	0.7%	0.7%
At-Place Employment (‘000)	619.0	614.6	620.5	644.6	651.0	656.4	663.5	669.2	675.4
	-1.4%	-0.7%	1.0%	3.9%	1.0%	0.8%	1.1%	0.9%	0.9%
Resident employment (‘000)	259.4	264.7	286.6	292.8	294.8	295.2	297.4	299.6	301.6
	-2.9%	2.0%	8.3%	2.2%	0.5%	0.3%	0.8%	0.7%	0.7%
Unemployment Rate	7.8%	9.0%	6.8%	5.5%	6.2%	6.5%	6.3%	6.3%	6.3%
Housing starts	65	112	777	715	750	850	900	950	1,000
Housing Stock Total (‘000)	266.7	264.8	263.7	263.2	263.0	262.7	-263.1	263.6	264.3
	-0.7%	-0.7%	-0.4%	-0.2%	-0.1%	0.1%	0.1%	0.2%	0.3%
Washington Area Consumer Price Change	+2.4%	+1.1%	+2.3%	+3.4%	+2.6%	+2.6%	+2.6%	+2.6%	2.6%

Source: ORA based on (1) Standard and Poor’s DRI February 2001 and Economy.com’s March 2001 historical data (complied from federal government sources) and forecasts for the District of Columbia, (2) National economic projections by the Congressional Budget Office (January 2001) and Blue Chip Economic Indicators (April 2001), (3) D.C. Office of Employment Services labor market information as of February 2001, and (4) U.S. Bureau of the Census data, including housing starts, the 2000 Census count for D.C., and prior Bureau estimates of housing units, households, population, and population projections.

NOTES:

(1) In late December 2000 the U.S. Bureau of the Census released its April 2000 Census count of D.C. population. The count of 572,059 is about 10% greater than the Census Bureau had been estimating. Most details of the population count are not available, and the ramifications of the higher population on other economic values such as households, labor force, and personal income in the District will only become reflected in official statistics over the next year or two. This table represents ORA’s initial attempt to scale key variables for the D.C. economy to the new population estimate using ratios from Census and Standard and Poor’s DRI, inc. Because of these changes to the years 1997 through 1999, these years are also considered to be estimates.

(2) The estimates assume no U.S. recession.

city and increasing traffic congestion in the suburbs are attracting people and businesses, adding jobs and consumer base. Second, several development projects will help to maintain employment growth. Some of the projects either currently under way or planned include the new Convention Center, the Navy Yard, Gallery Place, Newseum, a new Metro station at New York Avenue, and several hotel projects. New openings of Kmart and Giant Foods will strengthen the District's retail base significantly. The District is also expected to see more high-tech activities, particularly in the NoMA (north of Massachusetts Avenue) corridor. The real estate market is expected to remain strong with low office vacancy rate and strong housing demand fueling more construction.

Real gross state product and real personal income in the District are forecast to grow about 1 percent and 2 percent, respectively, in FY 2001 with growth picking up in FY 2002 as the national economy improves. Real personal income is forecast to grow at 3 percent in FY 2002 as the economy picks up and population grows. Wage and salary employment is expected to grow at an annual average of 0.9 percent adding about 5,900 jobs a year for FY 2001 and FY 2002. Inflation is expected to remain in check with 2.6 average annual inflation during the period.

Long Term (Fiscal Years 2003-2005)

In looking further ahead to FY 2003 through FY 2005, the key economic issues are how much the national economy can continue to expand and the extent to which improving public services will stimulate economic development in the District. Nationally, the Congressional Budget Office (CBO) and the Blue Chip consensus forecast all anticipate healthy average annual growth in real GDP of 3.1 percent per year between FY 2003 and FY 2005. DRI also forecasts the growth rate of the Washington metropolitan region to continue to exceed the national average, although factors such as the shortage of skilled labor for technology-oriented industries could restrain this growth.

With a strong regional economy and an increasing federal surplus, the District economy is expected to remain on solid ground. The service sector should continue to be the engine of growth in the District, although there will be increasing activities in the retail sector with revitalization of the downtown area. The opening of the new Convention Center in 2003 should boost the city's tourism industry. The housing market is expected to remain strong as improving conditions in the city continue to attract new residents. However, the commercial real estate market is anticipated to slow down as recent commercial development in downtown is completed by 2003. Led by the service sector, jobs in D.C. and resident employment are assumed to increase by about 6,300 and 2,100 positions per year during the FY 2003 to FY 2005 period respectively, and inflation-adjusted gross state product and personal income are expected to increase at average annual rates of 1.0 percent and 0.7 percent respectively.

Revenues in FY 2001–FY 2005

General fund revenue to finance operating fund expenditures for FY 2002 is estimated to be $3,555,889,000, representing an increase of $97.228 million over the FY 2001 revised estimate of $3,458,601,000. In FY 2002, estimates of dedicated revenues include: Arena Fee collections ($9.0 million); Convention Center revenue ($65.3 million); and the Motor Fuel Tax for the Highway Trust fund ($31.0 million). Water and Sewer Authority revenue is estimated at $253.8 million.

Factors Underlying Current Revenue Estimates

While the outlook for the forecasting period, FY 2001-FY 2005, is positive for the District's economy, with real growth in gross state product and personal income, it also is cautious, with only modest improvements in any economic category. The economic signs are good for D.C. with continued strength in high-end office space and in the demand for single-family housing.

Yet D.C. is vulnerable to national economic changes such as rising interest rates that affect consumer spending for travel, automobiles, housing, and other “big ticket” items. And locally, the recovery of D.C.'s public service delivery is critical to sustaining economic development. These are all in the mix of considerations that shape the long-term revenue projections.

Finally, the activity to re-engineer the government of the District of Columbia is influencing the revenue stream. Specifically, the District has made multiple decisions to reduce tax rates, change tax bases, and improve the tax structure. Ongoing implementation of the Tax Parity Act will incrementally reduce revenue each year until fully implemented in FY 2004.

The long-term projections show 2.8 percent growth in General Fund revenue in FY 2002, 3.1 percent in FY 2003, and 3.8 percent in FY 2004. These changes, which do not include any Tobacco Settlement funds, are adjusted for all policy decisions including the rolled-in tax law changes under the Tax Parity Act.

Forecasting Risks

As with any predictions of the future, these will be in error; our goal is to minimize the extent of the error. Small risks include deviations from the forecast rate of increase in GSP and personal income – 1 percent error in these factors would adjust the estimates by tens of millions of dollars from income and sales taxes. A recession or growth much more robust than that forecast would have a major impact on these estimates. A recession that begins immediately and deepens for some months could reduce FY 2002 revenues by $100 million or more; however, no recession of any size is forecast at this time. Alternatively, if the local economy and income grow 2 percent more than forecast and financial markets have a strong rebound, revenues would be substantially above the estimates. Finally, the level of voluntary compliance and the possibility of writing off receivables both have significant potential to swing revenues either up or down.

Restrictions Imposed by the Budget and Revenue Estimating Cycle

The revenue estimating cycle of the District of Columbia is both unique and cumbersome. Unlike other jurisdictions, each budget must be approved by the U.S. Congress, requiring a long lead-time between budget preparation and execution, whether the budget is original or a proposed supplement to an already adopted budget. During a budget year, if revenue is stronger than expected, the District cannot adjust expenditures upward except by going through this lengthy process. Some years this can be combined with the budget submission for the upcoming year – although many months of delay in approval can limit the utility of a requested supplement. Otherwise, the District must make-do with a revenue estimate that is completed 18 or more months before the actual revenue is due. And even then, a meaningful fraction of the revenue is actually identified and accounted for after all expenditure plans are long since completed.

As a consequence, the District faces more uncertainty about revenue and expenditures than other cities and states. A lot happens in 18 months to the population, the economy, and the policy environment. Other cities and states have mechanisms for adjusting to these changes. The District would benefit by having an expeditious process for adjusting expenditures in cases where revenues are materially different than initially forecast.

Other taxing jurisdictions exercise their option for interim adjustments. Maryland, for example, makes an initial revenue estimate six months before the start of the fiscal year, a revision three months later, and a mid-course correction five months into the fiscal year so that expenditures can be changed if appropriate.

Having discussed the revenue side of the financial plan, this chapter now turns to a discussion of expenditures.

Summary of Expenditure Projections

Expenditure projections in the financial plan are computed through a detailed series of spending projections that are applied to categories of FY 2002 spending. The purpose of this section is to present and explain the methods used to compute future year expenditures, and to discuss how they interact to create aggregate growth rates.

There are two main categories of projections of future expenditures: regular expenditures and unique expenditures. Regular expenditures represent the anticipated growth of agency expenditures as needed to maintain current service levels. In the Financial Plan, these expenditures are reflected on lines 13 through 19 of the financial plan for gross funds above.

Unique expenditures represent those expenditures that do not grow consistently or have not been incorporated into agency spending projections. These expenditures consist of the items in lines 20 through 30 of the financial plan. For each of these expenditure types, the Financial Plan uses different projection methods:

- Regular Expenditures
  - Growth rates by object class
  - Growth rates by program/agency
- Unique Expenditures — Computed annual expenditures

Each of these methods is described below, and specific descriptions of their applications are provided.

Regular Expenditures: Growth Rates by Object Class

The use of growth rates by object class serves as the primary method for computing future year expenditures, and accounts for roughly 80 percent of all projections. The other methods simply provide for exceptions where these rates do not apply. This method assigns a specific growth rate for each spending category (object class) of an agency's budget. Sometimes this rate applies equally to all three future years, and other times it is adjusted to account for differences from year to year. The following sections describe the specific rates used by object class.

Personal Services

A personal services growth rate of 3.3 percent is used for all future years, and is composed of two parts. First, a 2.6 percent inflation rate for the Washington area is applied to each year. Second, an estimate of 0.7 percent growth over inflation reflects potential adjustments in compensation such as step increases. This 3.3 percent is applied to all object classes associated with personal services, as indicated below.

Code	Object Class	FY 2003	FY 2004	FY 2005
11	Regular Pay – Cont. Full Time	3.3%	3.3%	3.3%
12	Regular Pay – Other	3.3%	3.3%	3.3%
13	Additional Gross Pay	3.3%	3.3%	3.3%
14	Fringe Benefits - Current Personnel	3.3%	3.3%	3.3%

Non-Personal Services

Non-personal services are projected to grow at the rate of growth of the consumer price index for the Washington area. The index accounts for the general inflation of goods and services specific to this region. The following paragraphs describe the rationale behind the energy, telecommunications and rent assumptions.

Code	Object Class	FY 2003	FY 2004	FY 2005
20	Supplies and Materials	2.6%	2.6%	2.6%
30	Utilities	2.6%	2.6%	2.6%
40	Other Services and Charges	2.6%	2.6%	2.6%
41	Contractual Services - Other	2.6%	2.6%	2.6%
50	Subsidies and Transfers	2.6%	2.6%	2.6%
60	Land and Buildings	2.6%	2.6%	2.6%
70	Equipment and Equipment Rental	2.6%	2.6%	2.6%

Energy

The Office of Property Management's Energy Management Division estimates that utility costs will likely decrease based upon cost reduction strategies presently being implemented. Based on these cost reduction strategies, costs are projected to rise by the rate of inflation (CPI) published by the Bureau of Labor Statistics.

Energy cost projections are subject to many uncertainties. The events that shape energy markets are random and cannot be anticipated, including severe weather, political disruptions, strikes, and technological breakthroughs. The Office of Property management will continue to pursue an aggressive energy cost reduction program by negotiating lower rates with energy suppliers and implementing energy conservation projects in District facilities.

Telecommunications

Telecommunication costs have been steadily rising over the last ten years. Expenditures for FY 1997 increased by over 40 percent compared to FY 1996. This dramatic increase is attributable to the purchase and replacement of telephone systems that were counted as a telecommunications expenditure. This one-time expense distorts the trend for telecommunications costs. As a result, the FY 1997 data was adjusted by removing the out-year expenditure in order to attain a more accurate projection. Based on this adjusted trend forecast, telecommunications expenditures are expected to grow at a rate of about 2.6 percent over the course of the financial plan.

Rent

The Office of Property Management projects that rent expenditures are expected to increase at a rate of 2.6 percent annually over the course of the financial plan. This rate is based on the Washington CPIU and the CPIW, both adjusted and unadjusted, and assumes that these indices will remain steady.

Regular Expenditures: Growth Rates by Program/Agency

This method applies to programs/agencies that do not grow according to the assumptions defined above. Instead, there are unique growth rates that are applied to them, regardless of spending category. For the current multiyear plan, the following items receive this treatment.

Medicaid

Medicaid is an entitlement program that provides health care insurance and other services to low-income individuals. Because it is an entitlement program, the District must budget enough funds to cover expected expenditures. Over the course of the multiyear plan, Medicaid is expected to grow by approximately 8 percent annually.

Budget Item	FY 2003	FY 2004	FY 2005
Medicaid	8.0%	8.0%	8.0%

Health Care Safety Net Administration

The Health Care Safety Net Administration is a unit within the Department of Health that will administer and monitor the contract to deliver comprehensive community-based health care services to the poor. It replaces the Public Benefit Corporation (PBC) as the District's approach to addressing the health care needs of the indigent and uninsured. Cost increases throughout the life of the contract are unknown; these increases are likely to be higher than the general rate of inflation and are estimated at 5 percent per year for purposes of the multiyear plan.

Budget Item	FY 2003	FY 2004	FY 2005
Health Care Safety Net Administration	5.0%	5.0%	5.0%

Public Schools

FY 2001 marked the first year that the D.C. Public Schools and Public Charter Schools received funding based on a per-pupil funding formula. The provisions of this formula are statutorily defined, and one such provision dictates that once the base formula is established, future budget allocations should increase based on the rate of inflation for the prior year. As such, school funding is projected to grow at the rate of inflation for the prior year.

Overall funding for D.C. Public Schools and Public Charter Schools will vary in the same proportion as enrollment. The latest U.S. Census Bureau projections of the school-age population in the District show increases from 2001 through 2005. However, these projections were made before the Year 2000 Census figures for the District were released. Those figures showed such an unanticipated increase in the District's population that projections made before that date have been called into question. Thus, no assumption is made here about increases or decreases in the school-age population. This is an area the District will explore more in the future.

Budget Item	FY 2003	FY 2004	FY 2005
Public Schools (Local Funds Only)	2.6%	2.6%	2.6%

School Transit Subsidy

The School Transit Subsidy provides subsidized Metrobus and Metrorail rides for eligible District of Columbia students. The cost to the District of this subsidy would mainly change from either a change in the number of school children or a change in the base fares of Metrobus or Metrorail. As described above, changes in the school population cannot adequately be predicted at this time. Metro officials have promised not to raise fares through 2002. With uncertainty in both the number of school children and fare changes, the District will hold constant the School Transit Subsidy until further information is available.

Budget Item	FY 2003	FY 2004	FY 2005
School Transit Subsidy	0.0%	0.0%	0.0%

D.C. Retirement Programs for Police/Firefighters and Teachers, and Unemployment and Disability Compensation Funds

The District's costs associated with retirement programs for police/firefighters and teachers changed dramatically in FY 1998 due to the passage of the District of Columbia Retirement Protection Act of 1997. This Act transferred most of the liabilities accrued as of June 30, 1997, as well as approximately $3.5 billion in assets to the Federal government. As a result, the District has been relieved of its responsibility to fund the costs associated with this unfunded liability, which was $4.8 billion as of October 1, 1996.

The District's pension contribution is based on the projected payroll for firefighters, police and teachers. The normal contribution rate is consistent in the out-years, so the growth rates of 3.3 percent used simply reflect personal services cost increases.

The District is not required to make a FY 2002 contribution to the Teacher's Retirement System, based on the actuarial report commissioned by the D.C. Retirement Board. The actuarial report also projects that no contribution will be required through FY 2004. The multiyear plan, by building growth on a budget item that is $0 for the current year, thus likewise assumes no contribution through FY 2004. Rather than project a dollar figure for FY 2005, the plan continues to assume no contribution; this assumption will be revisited as new actuarial reports are produced.

As with the retirement systems, costs for the Unemployment and Disability Compensation Funds are projected to rise at the same rate as personal services cost increases, because benefits paid by these funds are related to compensation.

Budget Item	FY 2003	FY 2004	FY 2005
Police and Fire Retirement System	3.3%	3.3%	3.3%
Teacher's Retirement System	3.3%	3.3%	3.3%
Unemployment Compensation Fund	3.3%	3.3%	3.3%
Disability Compensation Fund	3.3%	3.3%	3.3%

Washington Metro Area Transit Authority Subsidy

The Washington Metro Area Transit Authority subsidy is projected to grow at a rate of 4 percent per year over the course of the multiyear plan. Higher than inflationary growth is projected as new Metrorail and bus services come online. In addition, new labor agreements will be negotiated, and the provisions of certain federal laws will be implemented. Laws such as the Americans with Disabilities Act, the Clean Air Act Amendments, and the Intermodal Surface Transportation Efficiency Act will impact the District's subsidy requirement.

Budget Item	FY 2003	FY 2004	FY 2005
Mass Transit Subsidies	4.0%	4.0%	4.0%

Unique Expenditures: Computed Annual Expenditures

For certain other items, future expenditures are not projected using simple growth rates. Instead, the multiyear plan reflects their future year expenditures as computed through unique computations for each year. These items are described below.

Debt Service

Debt service estimates are calculated based on the anticipated short, and long-term borrowing needs of the District.

Budget Item (dollars of thousands)	FY 2003	FY 2004	FY 2005
Repayment of Loans and Interest	$282,399	$348,454	$378,136
Repayment of General Fund Deficit	$39,300	$0	$0
Short-Term Borrowings	$500	$500	$500
Certificate of Participation	$0	$0	$0

Reserve

The Congress requires that the District budget a $150 million reserve each year through FY 2004. As such, no growth is required for this item.

Budget Item (thousands of dollars)	FY 2003	FY 2004	FY 2005
Reserve	$150,000	$150,000	$0

Emergency and Contingency Reserve Fund Transfer

The Congress requires that the debt service savings resulting from the securitization of tobacco receipts must be transferred to the emergency and contingency reserve funds, until this item is fully funded at 7 percent of anticipated (or projected) local fund expenditures. The amount of debt service savings each year is based on the planned debt service that would have been paid on defeased bonds (i.e., the amount of principal and interest that would have been paid each year). As such, no growth rate is applied to this item.

Based on the contributions to the reserve funds beginning in FY 2001, from both debt service savings and a required one-percent annual deposit, it is projected that the cash reserve funds will meet their 7-percent target by FY 2003. At this point, the District is no longer required to make a 1-percent deposit, and future debt service savings become contributions to the Tobacco Trust Fund. Thus, a small amount of FY 2003 debt service savings, and all savings for FY 2004 and FY 2005, will be deposited into the Tobacco Trust Fund (Tobacco Securitization Savings).

Budget Item (thousands of dollars)	FY 2003	FY 2004	FY 2005
Emergency and Contingency Reserve Fund Transfer	$49,493	$0	$0
Tobacco Trust Fund Transfer	$1,374	$55,359	$61,968

Having assessed the detailed assumptions that drive the financial plan's expenditure projections, this discussion now turns to an examination of how these spending projections interact to form aggregate growth rates.

Aggregate Growth Rate

Through a series of database computations, the growth assumptions described above are applied to the detailed FY 2002 budget to produce spending projections for future years. These projections are then summarized to produce the financial plan. The purpose of this discussion is to identify how the interaction of the detailed projections affects the aggregate growth rate. This discussion will focus on the Local Funds version of the financial plan, given that this version best presents the decisions made by the District's leadership.

Perhaps the most interesting exercise in reviewing growth rates involves the comparison between regular expenditures, unique expenditures, and total expenditures. Often, the question arises as to why growth rates for total expenditures appear to be irregular over the period of the financial plan, as shown in Table 4.

The answer to this question is partially revealed by showing the disaggregated growth of regular and unique expenditures. This computation shows that regular expenditures grow at an average rate of 3.7 percent per year, while unique expenditures grow more rapidly and more irregularly.

The rate of growth is not constant across years. Expenditures grow more slowly than average from FY 2002 to FY 2003 because of certain one-time items included in the FY 2002 budget that are assumed not to carry forward into FY 2003 and beyond. On the other hand, expenditures grow more rapidly in FY 2004 and FY 2005 because spending on programs from the Tobacco Trust Fund is assumed to be ongoing, and this spending first becomes significant in FY 2004.

The Bottom Line

As the Congress reviews this budget, the Financial Plan should reveal that the District has produced decisions that effectively balance the need to invest with the need to exercise fiscal discipline. Even with the requirements to budget a $150 million reserve each year and to establish a 7 percent cash reserve fund (including a 4 percent emergency and 3 percent contingency reserve fund), the District will improve service delivery, invest in infrastructure, and continue to provide tax relief. Furthermore, this plan reflects the true commitment and ability of the District's elected leadership to manage responsibly and resume home rule.

Table 4

FY 2002–FY 2005 Revenues and Expenditures, Local Funds

(dollars in thousands)

	Budget FY 2002	Forecast FY 2003	Percent Increase	Forecast FY 2004	Percent Increase	Forecast FY2005	Percent Increase	Average Growth
Revenues	**3,555,889**	**3,665,124**	**3.1%**	**3,802,805**	**3.8%**	**3,953,557**	**4.0%**	**3.6%**
Expenditures								
Regular	3,024,790	3,096,020	2.4%	3,229,544	4.3%	3,371,591	4.4%	3.7%
Unique	495,256	531,547	7.3%	560,153	5.4%	591,748	5.6%	6.1%
TOTAL	**3,520,046**	**3,627,567**	**3.1%**	**3,789,697**	**4.5%**	**3,963,339**	**4.6%**	**4.0%**
Annual Surplus Before Adjustments	35,843	37,557		13,108		(9,782)		
Adjustments*	50,000	50,000		50,000		50,000		
Net Operating Margin	**85,843**	**87,557**		**63,108**		**40,218**		
Fund Balance								
Beginning of Year	412,135	497,978		585,535		648,643		
End of Year	**497,978**	**585,535**		**648,643**		**688,861**		

* The net operating margin for each year reflects a net GAAP adjustment of $50 million and assumes that $100 million of the budgeted reserve is not spent. Note that this analysis does not include the transfers to the Emergency and Contingency Reserve Funds or the invested portion of the tobacco securitization savings. In addition, to maintain comparability with prior years, for this analysis a $150 million budgeted reserve is assumed for FY 2005, although such an item is not required by law and, as such, is not included in the Financial Plan. As such, the net operating margin and Fund Balance reflected in FY 2005 in this table do not mirror that in the Financial Plan.